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E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash flows from operating activities:		
Net income	$ 328,539	$ 298,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	51,231	20,467
Depreciation and amortization (including discount amortization and accretion)	140,307	144,358
Gain on sales of loans and securities, net and gain on sales and impairment of investments	(59,726)	(40,024)
Equity in (income) loss of investments and venture funds	(7,255)	818
Non-cash facility restructuring costs and other exit activities	(1,793)	2,631
Stock-based compensation	22,449	19,230
Tax benefit from tax deductions in excess of compensation expense	(14,260)	(15,560)
Other	22,467	11,948
Net effect of changes in assets and liabilities:		
(Increase) decrease in cash and investments required to be segregated under Federal or other regulations	(55,815)	343,110
Increase in margin receivables	(549,777)	(1,496,832)
Increase (decrease) in customer payables	255,326	(17,649)
Proceeds from sales, repayments and maturities of loans held-for-sale	837,538	517,194
Purchases and originations of loans held-for-sale	(796,806)	(913,378)
Proceeds from sales, repayments and maturities of trading securities	793,066	783,705
Purchases of trading securities	(759,686)	(485,671)
Other assets	(492,041)	514,973
Accounts payable, accrued and other liabilities	111,402	530,421
Facility restructuring liabilities	(2,929)	(7,031)
Net cash (used in) provided by operating activities	(177,763)	211,665
Cash flows from investing activities:		
Purchases of available-for-sale mortgage-backed and investment securities	(10,131,571)	(5,124,950)
Proceeds from sales, maturities of and principal payments on available-for-sale mortgage-backed and investment securities	6,788,055	2,697,868
Net increase in loans receivable	(5,249,979)	(1,447,412)
Purchases of property and equipment	(85,643)	(42,597)
Cash used in business acquisitions, net	(4,644)	(11,646)
Net cash flow from derivatives hedging assets	3,082	24,620
Other	(40,920)	17,564
Net cash used in investing activities	$ (8,721,620)	$(3,886,553)

See accompanying notes to consolidated financial statements

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E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS—(Continued)
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash flows from financing activities:		
Net increase in deposits	$ 3,699,401	$ 5,256,350
Advances from other long-term borrowings	7,671,000	930,100
Payments on advances from other long-term borrowings	(5,364,311)	(1,840,100)
Net increase (decrease) in securities sold under agreements to repurchase	2,641,012	(913,735)
Net increase in other borrowed funds	112,486	148,534
Payments for redemption of 6% convertible notes	—	(1,754)
Proceeds from issuance of common stock from employee stock transactions	23,431	28,641
Tax benefit from tax deductions in excess of compensation expense recognition	14,260	15,560
Repurchases of common stock	(95,905)	(48,273)
Proceeds from issuance of subordinated debentures and trust preferred securities	41,000	44,900
Net cash flow from derivatives hedging liabilities	(15,715)	86,882
Net cash provided by financing activities	8,726,659	3,707,105
Increase (decrease) in cash and equivalents	(172,724)	32,217
Cash and equivalents, beginning of period	1,212,234	844,188
Cash and equivalents, end of period	$ 1,039,510	$ 876,405
Supplemental disclosures:		
Cash paid for interest	$ 1,075,033	$ 616,052
Cash paid for income taxes	$ 128,821	$ 108,511
Non-cash investing and financing activities:		
Transfers from loans to other real estate owned and repossessed assets	$ 40,169	$ 29,119
Reclassification of loans held-for-sale to loans held-for-investment	$ 3,807	$ 73,190
Issuance of common stock to retire debentures	$ —	$ 183,411

See accompanying notes to consolidated financial statements

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E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1—ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—E*TRADE Financial Corporation (together with its subsidiaries, "E*TRADE" or the "Company") is a global company offering a wide range of financial services to consumers under the brand "E*TRADE Financial." The Company offers trading, investing, banking and lending products and services to its retail and institutional customers.

Basis of Presentation—The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Entities in which the Company holds at least a 20% ownership or in which there are other indicators of significant influence are generally accounted for by the equity method. Entities in which the Company holds less than 20% ownership and does not have the ability to exercise significant influence are generally carried at cost. Intercompany accounts and transactions are eliminated in consolidation. The Company evaluates investments including joint ventures, low income housing tax credit partnerships and other limited partnerships to determine if the Company is required to consolidate the entities under the guidance of FASB interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities-an interpretation of ARB No. 51* ("FIN 46R").

Certain prior period items in these consolidated financial statements have been reclassified to conform to the current period presentation. As discussed in Note 2—Discontinued Operations, the operations of certain businesses have been accounted for as discontinued operations in accordance with the Statement of Financial Accounting Standard ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Accordingly, results of operations from prior periods have been reclassified to discontinued operations. Unless noted, discussions herein pertain to the Company's continuing operations.

These consolidated financial statements reflect all adjustments, which are all normal and recurring in nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented, and should be read in conjunction with the consolidated financial statements of E*TRADE Financial Corporation included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The Company reports corporate interest income and expense separately from operating interest income and expense. The Company believes reporting these two items separately provides a clearer picture of the financial performance of the Company's operations than would a presentation that combined these two items. Operating interest income and expense is generated from the operations of the Company and is a broad indicator of the Company's success in its banking, lending and balance sheet management businesses. Corporate debt, which is the primary source of the corporate interest expense has been used primarily to finance acquisitions, such as Harris*direct* and BrownCo and generally has not been downstreamed to any of the Company's operating subsidiaries.

Similarly, the Company reports gain on sales and impairment of investments separately from gain on sales of loans and securities, net. The Company believes reporting these two items separately provides a clearer picture of the financial performance of its operations than would a presentation that combined these two items. Gain on sales of loans and securities, net are the result of activities in the Company's operations, namely its lending and balance sheet management businesses. Gain on sales and impairment of investments relates to historical equity investments of the Company at the corporate level and are not related to the ongoing business of the Company's operating subsidiaries.

New Income Statement Reporting Format—During the first quarter of 2007, the Company re-defined the line item "Service charges and fees" by reclassifying certain fee-like revenue items formerly reported in "Other revenue" into the "Service charges and fees" line item, now called "Fees and service charges." The fee-like revenue streams moved include payment for order flow, foreign exchange margin revenue, 12b-1 fees after

rebates, fixed income product revenues and management fee revenue.

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New Balance Sheet Reporting Format—During the first quarter of 2007, the Company re-presented its balance sheet to report margin receivables and customer payables directly on the face of the balance sheet. The remaining components of brokerage receivables and brokerage payables are now reported in the "Other assets" and "Accounts payable, accrued and other liabilities" line items, respectively.

Use of Estimates—The financial statements were prepared in accordance with GAAP, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes for the periods presented. Actual results could differ from management's estimates. Material estimates in which management believes near-term changes could reasonably occur include allowance for loan losses and uncollectible margin receivables; classification and valuation of certain investments; valuation and accounting for financial derivatives; estimates of effective tax rates; deferred taxes and valuation allowances; valuation of goodwill and other intangibles; and valuation and expensing of share-based payments.

Financial Statement Descriptions and Related Accounting Policies—Below are descriptions and accounting policies for the Company's new financial statement categories.

Margin Receivables—Margin receivables represent credit extended to customers and non-customers to finance their purchases of securities by borrowing against securities they currently own. Receivables from non-customers represent credit extended to principal officers and directors of the Company to finance their purchase of securities by borrowing against securities owned by them. Securities owned by customers and non-customers are held as collateral for amounts due on the margin receivables, the value of which is not reflected in the consolidated balance sheet. In many cases, the Company is permitted to sell or re-pledge these securities held as collateral and use the securities to enter into securities lending transactions, to collateralize borrowings or for delivery to counterparties to cover customer short positions. At June 30, 2007, the fair value of securities that the Company received as collateral in connection with margin receivables and stock borrowing activities, where the Company is permitted to sell or re-pledge the securities, was approximately $10.4 billion. Of this amount, $2.3 billion had been pledged or sold at June 30, 2007 in connection with securities loans, bank borrowings and deposits with clearing organizations.

Customer Payables—Customer payables to customers and non-customers represent credit balances in customer accounts arising from deposits of funds and sales of securities and other funds pending completion of securities transactions. The Company pays interest on certain customer payables balances.

Fees and Service Charges—Fees and service charges consist of account maintenance fees, servicing fee income, payments for order flow, foreign exchange margin revenue, 12b-1 fees after rebates, fixed income product revenues and management fee revenue. Account maintenance fees are charges to the customer either quarterly or annually and are accrued as earned. Payments for order flow are accrued in the same period in which the related securities transactions are completed or related services are rendered.

Other Revenue—Other revenue primarily consists of stock plan administration services and other revenue ancillary to the Company's retail customer transactions. Stock plan administration services are recognized in accordance with applicable accounting guidance, including Statement of Position 97-2, *Software Revenue Recognition*.

New Accounting Standards—Below are the new accounting pronouncements that relate to activities in which the Company is engaged.

FIN 48—Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109

In July 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which became effective for the Company on January 1, 2007. The interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-

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likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company's reassessment of its tax positions in accordance with FIN 48 did not have a material impact on the results of operations, financial condition or liquidity. The impact of adoption was a $14.9 million reduction to beginning retained earnings. For additional information regarding the adoption of FIN 48, see Note 13—Income Taxes.

SFAS No. 156—Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, an amendment of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This statement establishes, among other things, the accounting for all separately recognized servicing assets and liabilities. This statement amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities be initially measured at fair value. The Company adopted this statement on January 1, 2007 and the impact of adoption was not material to the Company's financial condition, results of operations or cash flows.

SFAS No. 157—Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement establishes, among other things, a framework for measuring fair value and expands disclosure requirements as they relate to fair value measurements. The statement is effective at the beginning of an entity's first fiscal year that begins after November 15, 2007 or January 1, 2008 for the Company. The Company is currently evaluating the impact this guidance will have on its financial condition, results of operations or cash flows.

SFAS No. 159—The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement provides an option under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. This fair value option will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. The statement is effective at the beginning of an entity's first fiscal year that begins after November 15, 2007 or January 1, 2008 for the Company. The Company is currently evaluating the impact this guidance will have on its financial condition, results of operations or cash flows.

NOTE 2—DISCONTINUED OPERATIONS

In December 2005, the Company decided to sell its professional agency business, E*TRADE Professional Trading, LLC. The Company executed and settled this transaction during the year ended December 31, 2006 and recorded approximately $2.6 million in gain, net of tax, on the sale.

The following table summarizes the results of discontinued operations for the agency trading business (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net revenue	$ —	$ 2,825	$—	$ 5,526
Loss from discontinued operations	$ —	$ (341)	$—	$ (1,181)
Income tax benefit	—	(133)	—	(460)
Loss from discontinued operations, net of tax	$ —	$ (208)	$—	$ (721)

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NOTE 3—FACILITY RESTRUCTURING AND OTHER EXIT ACTIVITIES

The Company periodically evaluates and adjusts its estimated costs associated with its restructuring plans and other exit activities. Restructuring liabilities are included in accounts payable, accrued and other liabilities in the consolidated balance sheet. The following table summarizes the amount recognized by the Company as facility restructuring and other exit activities for the periods presented (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
2003 Restructuring Plan	$ (329)	$ (62)	$ (329)	$ (320)
2001 Restructuring Plan	(372)	368	(854)	(347)
Other exit activities	(799)	2,578	416	3,298
Total facility restructuring and other exit activities	$ (1,500)	$ 2,884	$ (767)	$ 2,631

2003 Restructuring Plan

In April 2003, the Company announced a restructuring plan ("2003 Restructuring Plan") exiting and consolidating leased facilities and exiting and disposing of certain unprofitable product offerings and initiatives. Facility consolidation costs are expected to be paid over contractual periods ending in fiscal year 2010. The roll forward of the 2003 Restructuring Plan reserve is presented below (dollars in thousands):

	Facility Consolidation	Other	Total
Total 2003 Restructuring Reserve, originally recorded in 2003:			
Facility restructuring and other exit activities recorded	$ 58,547	$ 57,319	$115,866
Cash payments	(26,371)	(18,949)	(45,320)
Non-cash charges	(19,254)	(38,370)	(57,624)
Restructuring liabilities at December 31, 2006	12,922	—	12,922
Activity for the six months ended June 30, 2007:			
Adjustments and additional charges	(329)	—	(329)
Cash payments	(2,103)	—	(2,103)
Total facility restructuring liabilities at June 30, 2007	$ 10,490	$ —	$ 10,490

2001 Restructuring Plan

In August 2001, the Company announced a restructuring plan ("2001 Restructuring Plan") aimed at streamlining operations primarily by consolidating facilities in the United States and Europe. Facility consolidation costs are expected to be paid over contractual periods ending in fiscal year 2010. The roll forward of the 2001 Restructuring Plan reserve is presented below (dollars in thousands):

	Facility Consolidation	Asset Write-Off	Other	Total
Total 2001 Restructuring Reserve, originally recorded in 2001:				
Facility restructuring and other exit activities recorded	$ 149,684	$ 54,384	$ 26,401	$ 230,469
Cash payments	(103,728)	(507)	(20,507)	(124,742)
Non-cash charges	(41,263)	(53,877)	(5,810)	(100,950)
Restructuring liabilities at December 31, 2006	4,693	—	84	4,777
Activity for the six months ended June 30, 2007:				
Adjustments and additional charges	(770)	—	(84)	(854)

Cash payments	(828)	—	—	(828)
Total facility restructuring and other exit activities liabilities at June 30, 2007	$ 3,095	$ —	$ —	$ 3,095

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Other Exit Activities

Toward the end of the second quarter of 2006, the Company decided to relocate certain functions out of the state of California as well as outsource certain clearing operations and costs related to the relocation of certain accounting functions. The Company incurred charges of $(0.5) million and $0.7 million for the three and six months ended June 30, 2007, respectively, related to costs for exiting those facilities. The total charge for this exit activity was $29.9 million, all of which has been recorded in the retail segment. The Company expects to incur charges in future periods as it periodically evaluates the estimates made in connection with this activity; however, the Company does not expect those costs to be significant.

NOTE 4—OPERATING INTEREST INCOME AND OPERATING INTEREST EXPENSE

The following table shows the components of operating interest income and operating interest expense (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Operating interest income:				
Loans, net	$ 497,517	$ 303,499	$ 948,916	$ 584,769
Mortgage-backed and investment securities	238,147	190,355	452,290	349,856
Margin receivables	127,335	123,390	251,321	228,294
Other	42,773	43,129	83,040	91,748
Total operating interest income	905,772	660,373	1,735,567	1,254,667
Operating interest expense:				
Deposits	(205,301)	(121,758)	(388,289)	(216,376)
Other borrowings	(286,307)	(194,013)	(542,528)	(368,900)
Total operating interest expense	(491,608)	(315,771)	(930,817)	(585,276)
Net operating interest income	$ 414,164	$ 344,602	$ 804,750	$ 669,391

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NOTE 5—AVAILABLE-FOR-SALE MORTGAGE-BACKED AND INVESTMENT SECURITIES

The amortized cost basis and estimated fair values of available-for-sale mortgage-backed and investment securities are shown in the following tables (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
June 30, 2007:				
Mortgage-backed securities:				
Backed by U.S. Government sponsored and Federal agencies	$11,164,386	$ 7	$(553,480)	$10,610,913
Collateralized mortgage obligations and other	1,584,824	579	(32,433)	1,552,970
Total mortgage-backed securities	12,749,210	586	(585,913)	12,163,883
Investment securities:				
Debt securities:				
Asset-backed securities	3,020,630	3,523	(66,190)	2,957,963
Municipal bonds	837,061	2,776	(14,891)	824,946
Corporate bonds	46,852	2,403	(508)	48,747
Other debt securities	79,641	—	(6,801)	72,840
Total debt securities	3,984,184	8,702	(88,390)	3,904,496
Publicly traded equity securities:				
Preferred stock	472,665	3,587	(14,645)	461,607
Corporate investments	13,335	986	(564)	13,757
FHLB stock	347,992	—	—	347,992
Retained interests from securitizations	1,028	485	—	1,513
Total investment securities	4,819,204	13,760	(103,599)	4,729,365
Total available-for-sale securities	$17,568,414	$ 14,346	$(689,512)	$16,893,248
December 31, 2006:				
Mortgage-backed securities:				
Backed by U.S. Government sponsored and Federal agencies	$ 9,375,444	$ 688	$(266,825)	$ 9,109,307
Collateralized mortgage obligations and other	1,127,650	296	(19,561)	1,108,385
Total mortgage-backed securities	10,503,094	984	(286,386)	10,217,692
Investment securities:				
Debt securities:				
Asset-backed securities	2,163,538	9,929	(11,739)	2,161,728
Municipal bonds	620,261	13,316	(830)	632,747
Corporate bonds	105,692	481	(1,655)	104,518
Other debt securities	80,623	—	(5,743)	74,880
Total debt securities	2,970,114	23,726	(19,967)	2,973,873
Publicly traded equity securities:				
Preferred stock	455,801	4,905	(2,032)	458,674
Corporate investments	12,040	13,691	(1,592)	24,139
FHLB stock	244,212	—	—	244,212
Retained interests from securitizations	2,930	463	—	3,393
Total investment securities	3,685,097	42,785	(23,591)	3,704,291
Total available-for-sale securities	$14,188,191	$ 43,769	$(309,977)	$13,921,983

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Other-Than-Temporary Impairment of Investments

The following tables show the fair values and unrealized losses on investments, aggregated by investment category, and the length of time that individual securities have been in a continuous unrealized loss position (dollars in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
June 30, 2007:						
Mortgage-backed securities:						
Backed by U.S. Government sponsored and Federal agencies	$2,605,571	$(106,797)	$8,004,412	$(446,683)	$10,609,983	$(553,480)
Collateralized mortgage obligations and other	759,300	(11,613)	615,990	(20,820)	1,375,290	(32,433)
Debt securities:						
Asset-backed securities	1,802,165	(51,148)	674,718	(15,042)	2,476,883	(66,190)
Municipal bonds	626,203	(13,475)	25,628	(1,416)	651,831	(14,891)
Corporate bonds	231	(6)	24,844	(502)	25,075	(508)
Other debt securities	1,395	(9)	71,445	(6,792)	72,840	(6,801)
Publicly traded equity securities:						
Preferred stock	332,498	(13,709)	20,553	(936)	353,051	(14,645)
Corporate investments	9,499	(374)	172	(190)	9,671	(564)
Total temporarily impaired securities	$6,136,862	$(197,131)	$9,437,762	$(492,381)	$15,574,624	$(689,512)
December 31, 2006:						
Mortgage-backed securities:						
Backed by U.S. Government sponsored and Federal agencies	$1,482,684	$ (38,671)	$7,551,572	$(228,154)	$ 9,034,256	$(266,825)
Collateralized mortgage obligations and other	399,779	(2,258)	640,811	(17,303)	1,040,590	(19,561)
Debt securities:						
Asset-backed securities	358,628	(2,520)	629,889	(9,219)	988,517	(11,739)
Municipal bonds	58,548	(467)	28,326	(363)	86,874	(830)
Corporate bonds	765	(23)	72,661	(1,632)	73,426	(1,655)
Other debt securities	—	—	72,750	(5,743)	72,750	(5,743)
Publicly traded equity securities:						
Preferred stock	37,663	(420)	25,971	(1,612)	63,634	(2,032)
Corporate investments	8,486	(1,386)	156	(206)	8,642	(1,592)
Total temporarily impaired securities	$2,346,553	$ (45,745)	$9,022,136	$(264,232)	$11,368,689	$(309,977)

The Company does not believe that any individual unrealized loss as of June 30, 2007 represents an other-than-temporary impairment. The majority of the unrealized losses on mortgage-backed securities are attributable to changes in interest rates and are not reflective of deterioration in the credit quality of the issuer and/or securitization. Substantially all mortgage-backed securities backed by U.S. Government sponsored and Federal agencies are "AAA" rated and have unrealized losses due to changes in market interest rates. As market interest rates increase, the fair value of fixed-rate securities will decrease. The Company has the intent and ability to hold these securities until the market value recovers or the securities mature. Municipal bonds, corporate bonds and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions.

The majority of the asset-backed securities portfolio consisted of "AA" or higher rated securities. Based on its evaluation, the Company recorded other-than-temporary impairment charges for its asset-backed securities of \$2.8 million and \$3.0 million for the three and six months ended June 30, 2007. The Company recorded no impairment charges for the three months ended June 30, 2006 and \$0.4 million for the six months ended June 30, 2006, respectively.

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Gain on Sales of Loans and Securities, Net

Gain on sales of loans and securities, net are as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Gain on sales of originated loans	$ 2,043	$ 2,681	$ 3,958	$ 5,999
Gain (loss) on sales of loans held-for-sale, net	(25)	(409)	(1,687)	(1,098)
Gain on sales of securities, net[1]	3,310	8,835	20,432	17,834
Gain on sales of loans and securities, net	$ 5,328	$ 11,107	$22,703	$22,735

(1) Includes an other-than-temporary charge of $2.8 million and $3.0 million for impairment on asset-backed securities for the three and six months ended June 30, 2007. There was no such charge for the three and six months ended June 30, 2006.

Gain on Sales and Impairment of Investments

Gain on sales and impairment of investments are as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Gain on sales of publicly traded equity securities	$17,310	$15,502	$37,027	$33,557
Loss on sales of investments and impairments	—	—	—	(455)
Loss on sales of other equity securities, net[1]	(43)	(212)	(4)	(196)
Gain on sales and impairment of investments	$17,267	$15,290	$37,023	$32,906

(1) There was no other-than-temporary charge on retained interests from securitizations for the three and six months ended June 30, 2007. There was no impairment charge for the three months ended June 30, 2006 and $0.4 million on retained interests from securitizations for the six months ended June 30, 2006.

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NOTE 6—LOANS, NET

Loans, net are summarized as follows (dollars in thousands):

	June 30, 2007	December 31, 2006
Loans held-for-sale	$ 242,269	$ 283,496
Loans receivable, net:		
Real estate loans:		
One- to four-family	15,667,337	10,870,214
HELOC, HEIL and other	12,413,401	11,809,008
Total real estate loans	28,080,738	22,679,222
Consumer and other loans:		
Recreational vehicle	2,105,360	2,292,356
Marine	581,724	651,764
Commercial	275,367	219,008
Credit card	99,007	128,583
Automobile	41,283	77,533
Other	2,337	3,706
Total consumer and other loans	3,105,078	3,372,950
Total loans receivable	31,185,816	26,052,172
Unamortized premiums, net	373,418	388,153
Allowance for loan losses	(75,704)	(67,628)
Total loans receivable, net	31,483,530	26,372,697
Total loans, net	$31,725,799	$26,656,193

During the first quarter of 2007, the Company entered into a credit default swap ("CDS") on $4.0 billion of its first-lien residential real estate loan portfolio. A CDS provides, for a fee, an assumption by a third party of a portion of the credit risk related to the underlying loans. The CDS the Company entered into provides protection for losses in excess of 10 basis points, but not to exceed approximately 75 basis points. In addition, the Company's regulatory risk-weighted assets were reduced as a result of this transaction because it transferred a portion of the Company's credit risk to an unaffiliated third party.

NOTE 7—ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into derivative transactions to protect against the risk of market price or interest rate movements on the value of certain assets, liabilities and future cash flows. The Company is also required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative as promulgated by SFAS No. 133, as amended.

Fair Value Hedges

Overview of Fair Value Hedges

The Company uses a combination of interest rate swaps, forward-starting swaps and purchased options on swaps, interest rate caps and interest rate floors to offset its exposure to changes in value of certain fixed-rate assets and liabilities. Changes in the fair value of the derivatives and the related hedged items are recognized currently in earnings. To the extent that the hedge is ineffective, the changes in the fair values will not offset and the difference, or hedge ineffectiveness, is reflected in other expense excluding interest in the consolidated statement of income.

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The following table summarizes information related to financial derivatives in fair value hedge relationships (dollars in thousands):

	Notional Amount of Derivatives	Fair Value of Derivatives			Weighted-Average			
		Asset	Liability	Net	Pay Rate	Receive Rate	Strike Rate	Remaining Life (Years)
June 30, 2007:								
Pay-fixed interest rate swaps:								
Mortgage-backed securities	$ 4,038,000	$ 63,357	$ (1,712)	$ 61,645	5.12%	5.35%	N/A	5.55
Receive-fixed interest rate swaps:								
Corporate debt	1,400,000	102	(4,369)	(4,267)	3.02%	7.71%	N/A	5.88
Brokered certificates of deposit	124,848	—	(5,379)	(5,379)	5.30%	5.21%	N/A	10.88
FHLB advances	100,000	—	(3,453)	(3,453)	5.32%	3.64%	N/A	2.30
Purchased interest rate forward-starting swaps:								
Mortgage-backed securities	912,000	54	(773)	(719)	5.58%	N/A	N/A	7.01
Purchased interest rate options[(1)]:								
Swaptions[(2)]	3,830,000	83,772	—	83,772	N/A	N/A	5.50%	10.33
Caps	2,210,000	32,713	—	32,713	N/A	N/A	5.44%	3.80
Floors	1,810,000	14,906	—	14,906	N/A	N/A	5.07%	4.04
Total fair value hedges	$14,424,848	$194,904	$(15,686)	$179,218	4.74%	5.90%	5.39%	6.51
December 31, 2006:								
Pay-fixed interest rate swaps:								
Mortgage-backed securities	$ 4,774,000	$ 22,399	$(25,894)	$ (3,495)	5.12%	5.36%	N/A	4.20
Recreational vehicle loans	2,030,000	—	(8,046)	(8,046)	5.46%	5.35%	N/A	1.62
Home equity loans	490,000	—	(2,625)	(2,625)	5.40%	5.35%	N/A	2.16
Investment securities	335,162	1,128	(2,887)	(1,759)	5.07%	5.37%	N/A	6.69
Asset backed securities	232,000	1,013	—	1,013	5.08%	5.37%	N/A	6.52
Receive-fixed interest rate swaps:								
Brokered certificates of deposit	127,138	—	(3,392)	(3,392)	5.31%	5.21%	N/A	11.41
FHLB advances	100,000	—	(3,534)	(3,534)	5.35%	3.64%	N/A	2.79
Purchased interest rate options[(1)]:								
Swaptions[(2)]	3,338,000	50,218	—	50,218	N/A	N/A	5.37%	10.69
Caps	6,720,000	38,237	—	38,237	N/A	N/A	5.36%	2.18
Floors	1,200,000	19,786	—	19,786	N/A	N/A	4.74%	4.81
Total fair value								

hedges	$19,346,300	$132,781	$(46,378)	$ 86,403	5.22%	5.34%	5.30%	4.44

(1) Purchased interest rate options were used to hedge mortgage loans and mortgage-backed securities.
(2) Swaptions are options to enter swaps starting on a given day.

De-designated Fair Value Hedges

During the three and six months ended June 30, 2007 and 2006, certain fair value hedges were de-designated; therefore, hedge accounting was discontinued during those periods. The net gain or loss on the underlying transactions being hedged is amortized to operating interest expense or operating interest income over the original forecasted period at the time of de-designation. Changes in the fair value of these derivative instruments after de-designation of fair value hedge accounting were recorded in the gain on sales of loans and securities, net line item in the consolidated statement of income.

Cash Flow Hedges

Overview of Cash Flow Hedges

The Company uses a combination of interest rate swaps, forward-starting swaps and purchased options on caps and floors to hedge the variability of future cash flows associated with existing variable-rate liabilities and assets and forecasted issuances of liabilities. These cash flow hedge relationships are treated as effective hedges as long as the future issuances of liabilities remain probable and the hedges continue to meet the requirements of SFAS No. 133, as amended. The Company also enters into interest rate swaps to hedge changes in the future variability of cash flows of certain investment securities resulting from changes in a benchmark interest rate. Additionally, the Company enters into forward purchase and sale agreements, which are considered cash flow hedges, when the terms of the commitments exactly match the terms of the securities purchased or sold.

Changes in the fair value of derivatives that hedge cash flows associated with repurchase agreements, FHLB advances and HELOC are reported in accumulated other comprehensive loss as unrealized gains or losses. The amounts in accumulated other comprehensive loss are then included in operating interest expense or operating interest income as a yield adjustment during the same periods in which the related interest on the funding effects earnings. During the upcoming twelve months, the Company expects to include a pre-tax amount of approximately $43.4 million of net unrealized gains that are currently reflected in accumulated other comprehensive loss in operating interest expense as a yield adjustment in the same periods in which the related items affect earnings.

The following table summarizes information related to the Company's financial derivatives in cash flow hedge relationships, hedging variable-rate assets and liabilities and the forecasted issuances of liabilities (dollars in thousands):

	Notional Amount of Derivatives	Fair Value of Derivatives			Weighted-Average			
		Asset	Liability	Net	Pay Rate	Receive Rate	Strike Rate	Remaining Life (Years)
June 30, 2007:								
Pay-fixed interest rate swaps:								
Repurchase agreements	$ 3,195,000	$ 48,326	$ (3,266)	$ 45,060	5.40%	5.34%	N/A	5.53
FHLB advances	530,000	12,358	(1,112)	11,246	5.32%	5.36%	N/A	8.83
Purchase interest rate forward-starting swaps:								
Repurchase agreements	990,000	4,552	(3,170)	1,382	5.66%	N/A	N/A	11.08
FHLB advances	410,000	5,221	—	5,221	5.47%	N/A	N/A	9.36
Purchased interest rate options[(1)]:								
Caps	4,835,000	83,818	—	83,818	N/A	N/A	5.13%	3.63
Floors	1,900,000	13,815	—	13,815	N/A	N/A	7.41%	2.80
Total cash flow hedges	$11,860,000	$168,090	$ (7,548)	$160,542	5.44%	5.34%	5.78%	5.06
December 31, 2006:								
Pay-fixed interest rate swaps:								
Repurchase agreements	$ 3,435,000	$ 7,683	$(21,823)	$ (14,140)	5.36%	5.36%	N/A	5.90
FHLB advances	730,000	3,671	(3,301)	370	5.16%	5.37%	N/A	8.56
Purchased interest rate options[(1)]:								
Caps	4,690,000	62,710	—	62,710	N/A	N/A	5.05%	3.36
Floors	1,900,000	643	—	643	N/A	N/A	4.05%	2.09

Total cash flow hedges	$10,755,000	$ 74,707	$(25,124)	$ 49,583	5.33%	5.36%	4.76%	4.30

(1) Caps are used to hedge repurchase agreements and FHLB advances. Floors are used to hedge HELOC.

Under SFAS No. 133, as amended, the Company is required to record the fair value of gains and losses on derivatives designated as cash flow hedges in accumulated other comprehensive income in the consolidated balance sheet. In addition, during the normal course of business, the Company terminates certain interest rate swaps and options.